

# Oregon's WC Rate Ranking Study

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## The goal: relevant comparisons

- There are several WC rate and cost comparisons out there.
- But they aren't all useful for the same things.
- This should not surprise anyone.

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## Comparison tools: what are you shopping for?



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## WC rate or cost data: major sources in the U.S.

- US Bureau of Labor Statistics (BLS)
- National Academy of Social Insurance (NASI)
- Oregon's WC Rate Ranking study
- National Council on Compensation Insurance (NCCI)

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## Uses for employer cost data

### Aggregate comparisons over time:

- US Bureau of Labor Statistics (BLS)
- National Academy of Social Insurance (NASI)

### Across states in a single year:

- Oregon's WC Rate Ranking study
- National Council on Compensation Insurance (NCCI)

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## Oregon's Rate Ranking study

- The 2014 study is the 15<sup>th</sup> in the series
- Done every even-numbered year since 1986

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## Oregon's rates in 1986: the reason we started doing the study

- Rapid rate increases (+14.2% in '85, +26.7% in '86)
- Other studies incomplete; lacked data on contiguous states

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1986: available rate comparison tools had limitations



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## Oregon's rates in 1986: the reason we started doing the study

- Rapid rate increases (+14.2% in '85, +26.7% in '86)
- Other studies incomplete; lacked data on contiguous states
- We thought we could do a better, more comprehensive study
- Results: Oregon was 6<sup>th</sup> highest in 1986

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The trouble with averages

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Snack break



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Which store has the least expensive groceries?

- Average cost per grocery bag?

PROBLEMS:

- Stores carry different kinds of items
- Bags aren't all the same size
- Customer demographics vary among stores



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The underlying problem: simple averages are often a poor tool for comparison even if they're accurate.

- Averages often vary due to factors other than what we want to compare.
- An invalid comparison might be misleading, and worse than no comparison at all.

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Fixing the problem: level the playing field, by standardizing what we don't want to measure.

- Specify the date of the comparison
- Standardize the types of items compared
- Standardize the brands compared (or substitute, if necessary)

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After doing all that, you would have a pretty good comparison, but...

Only a quart of milk?  
We get it by the gallon.

Why isn't the fruit organically-grown?

Why didn't you specify extra-lean ground beef?

Raisin Bran? Why not Cheerios?

Use Raisin Bran to get the best deal.

Nobody would agree that it was perfect.

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## Simple averages don't work well for comparing across states

- Variation in hazard mix skews averages.
- We need to measure rates for comparable employers—
  - in a single risk classification, or
  - the same mix of risks.
- Simple averages can be useful for tracking within one state over several years. But they are the wrong tool for comparisons across states.

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## Getting to comparable averages

### Goals of the Oregon Rate Ranking

- Produce an average rate comparison, controlling for hazard mix
- Include all 50 states plus D.C.
- Report findings within the study year

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## The realities of interstate rate comparison

- ✓ There's no single comprehensive, national data source
- ✓ Different codes to classify risks
- ✓ Different underwriting bases
- ✓ Assessment mechanisms differ, for both administration and special funds

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## Methods for the Oregon Study

- Survey of all 50 states plus D.C.
- States report factors for voluntary-market manual rates, as of Jan.1 of the study year
- 50 classes with highest Oregon losses
- NCCI classification codes used (states do their own crosswalk)
- Weighted average by Oregon payrolls (the Index Rate)

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## Accolades

- *"One of the most respected and widely accepted benchmarking efforts has been Oregon's."* Barrett & Greene, Governing magazine
- *"The State of Oregon has provided a reliable comparison of premiums paid by comparable employers..."* John Burton and Daniel Mont, National Academy of Social Insurance
- IAABC 2006 Research Award

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Study findings: trends over time

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Taking the longer view...



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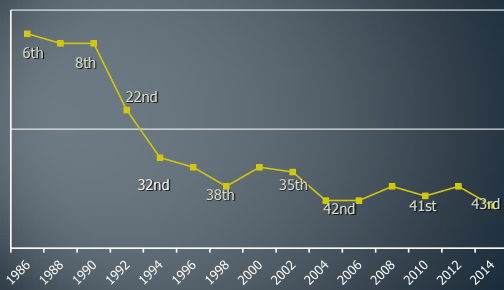
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### Findings: Oregon's ranking over time



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### A useful time series?

- Comparability issues: Classes and payroll weights change over time. But the effects of class changes are typically minor.
- How does the study's median index rate do as a national benchmark?

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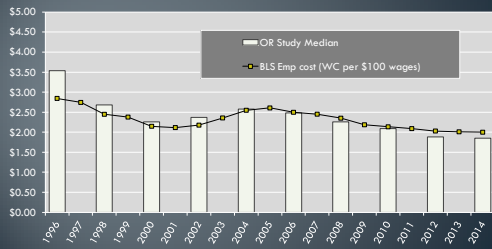
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### Last 10 Oregon Studies: Median Index Rate tracks closely with BLS Employer Costs



Note: BLS data are through 2nd Quarter 2014

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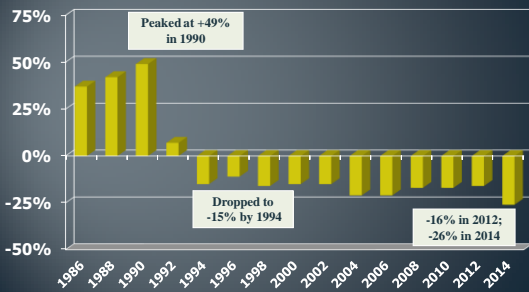
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### Oregon's Premium Rate Index relative to study median




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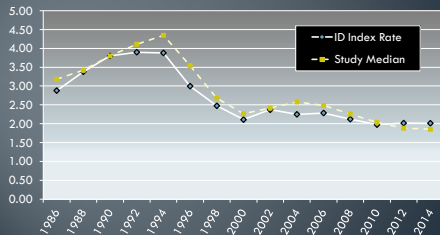
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### Findings: Idaho's index rate over time, compared to median state




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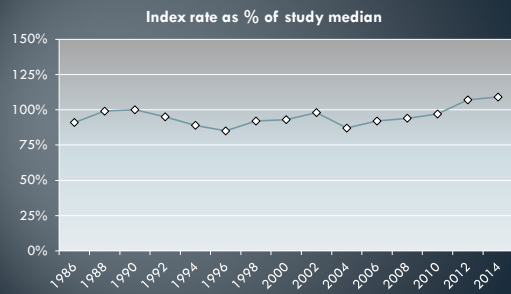
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## Idaho over the years



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## Four factors drive changes across studies in states' index rates:

- Premium rate changes
- Expense factor and assessment changes
- Changes in the set of classifications used
- Changes in payroll mix within classifications

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## The ranking isn't a diagnostic tool...



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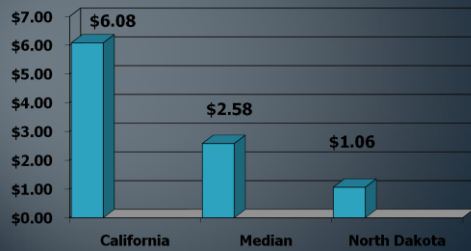
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### 2004 study the Range of Index Values




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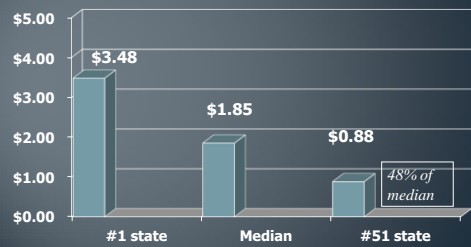
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### 2014 study the Range of Index Values



Note: results are preliminary

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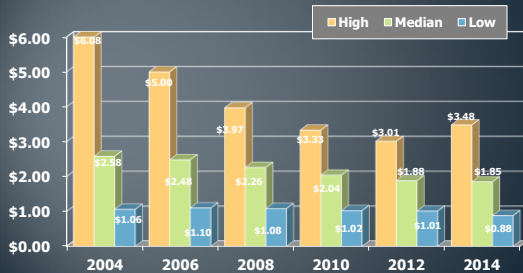
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### 2004 – 2014: Range of Index Values




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## A race to the middle?

- In 2004, there were 13 states within plus or minus 10 percent of the study median.
- In 2014 there were 21. This makes it more likely that small differences will affect rank values.



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## Philosophical musings

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More  
information  
content

Less  
information  
content

Proportional  
relativity

Rankings

Grades/ratings



The  
Hierarchy of  
Information  
Content

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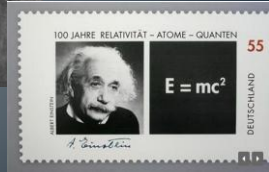
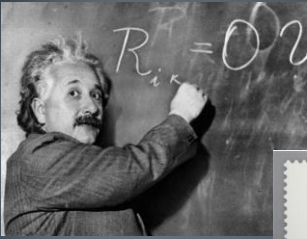
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## Relativity rules!



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## 2014 study findings by state

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## More-costly states



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### 2014: more costly rates (above 110% of median; 13 states)

State	% 2014 median	2014 Rank
California	188%	1
Connecticut	155%	2
New Jersey	152%	3
New York	148%	4
Alaska	145%	5
Oklahoma	137%	6
Illinois	127%	7
Vermont	125%	8
Delaware	125%	9
Louisiana	120%	10
Montana	119%	11
New Hampshire	118%	12
Maine	116%	13

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### 2014: middle ground (90% to 110% of median; 21 states)

→ Idaho	109%	14
Washington	108%	17
South Carolina	108%	17
Pennsylvania	108%	17
New Mexico	108%	20
Rhode Island	107%	20
Minnesota	107%	20
Missouri	107%	21
Tennessee	105%	22
Wisconsin	104%	23
Iowa	101%	24
South Dakota	100%	25
Hawaii	100%	27
North Carolina	100%	27
Florida	98%	28
Alabama	97%	29
Nebraska	96%	30
Wyoming	95%	31
Georgia	95%	32
Ohio	94%	33
Michigan	91%	34

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### 2014: lower rates (under 90% of median; 17 states)

Maryland	88%	35
Texas	87%	36
Arizona	86%	37
Mississippi	85%	38
Kansas	83%	39
Kentucky	82%	40
Colorado	81%	41
West Virginia	74%	43
Oregon	74%	43
Utah	71%	45
District of Columbia	70%	45
Nevada	68%	46
Massachusetts	63%	48
Virginia	63%	48
Arkansas	58%	49
Indiana	57%	50
North Dakota	47%	51

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### Eight states with the largest changes in % of Study Median, 2012 to 2014

CA	33%
DE	31%
MO	21%
VT	15%
<i>rising</i>	
<i>falling</i>	
MT	-14%
AK	-15%
KY	-22%
IL	-24%

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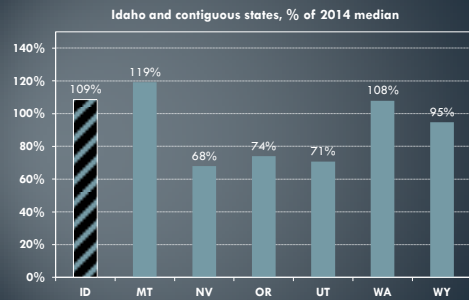
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### Relative to neighboring states




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### Some frequently asked questions




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**Q: Do higher rates mean that a system is less cost effective?**

- No, effectiveness involves meeting other program objectives.
- A system that encourages safe workplaces, delivers adequate benefits and quality medical care, promptly resolves disputes, and maximizes return to work might well be relatively costly, but nevertheless provides value for the money.

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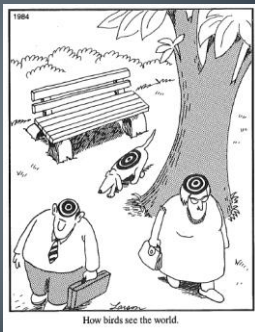
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**Rates are only one perspective on systems**



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**Q: The actual average premium for my state is different from the index rate that Oregon computes. How come?**

- The study index rate is comparable across states within each study. There's no intent to produce an actual average rate for each state.

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**Q: Why not add a benefit ranking so we can compare both costs and benefits?**

- Benefits are far too complex to be boiled down to a single measure. For example, the IAIABC/WCRI law comparison includes 66 different benefit attributes:
  - 5 for Medical benefits
  - 18 for Temp Total benefits
  - 8 for Perm Total benefits
  - 20 for Perm Partial benefits, and
  - 15 for Fatal benefits

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**Q: Why isn't there an adjustment to reflect differences in the cost of living in different states?**

- There is. But it's an implicit adjustment, since premium rates are based on \$100 units of payroll, and average wages are generally higher in high-cost areas.
- Comparison to available state-level data shows very little relation between rates and cost of living.

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**Q: Since you weight your averages using Oregon payrolls, doesn't it just apply to Oregon?**

- Oregon's class mix is actually quite similar to the Country-wide mix in the largest classifications. So a "national" mix would affect the rankings very little.
- But let's test that a little further.

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# Two different approaches to control for hazard mix

Oregon Study data	NCCI Advisory Forum data
States' manual rates	Loss costs (pure premium)
Benchmark is median rate	Benchmark is adjusted Countrywide (Normalizes CW to state mix)
51 jurisdictions	27 jurisdictions (2012)
Constant classification set (50 classes)	Class set varies by state of interest
Constant payroll mix (OR)	State payroll mix

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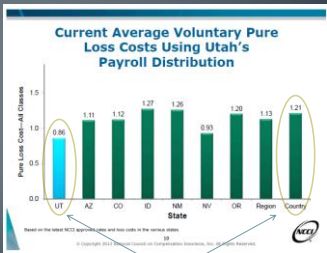
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## NCCI Forum presentations: adjusted CW, using state payroll weight, can be a benchmark



UT 0.86 / CW 1.21 = 71% of benchmark

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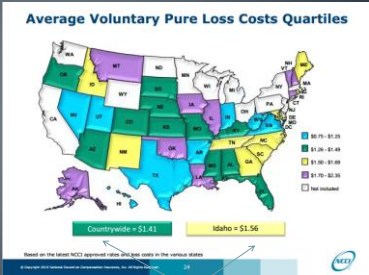
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## NCCI Forum presentations: adjusted CW, using state payroll weight, can be a benchmark



ID 1.56 / CW 1.41 = 111% of benchmark

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Oregon's study has a comparable figure: % of study median

2012 Ranking	2010 Ranking	State	Index Rate	Percent of study median	Effective Date
40	43	West Virginia	1.52	82%	November 1, 2011
41	43	Kansas	1.54	82%	January 1, 2012
42	31	Mississippi	1.49	79%	March 1, 2012
43	47	Colorado	1.42	76%	January 1, 2012
44	44	Massachusetts	1.37	73%	September 1, 2011
45	45	Utah	1.35	72%	December 1, 2011
46	21	Nevada	1.33	71%	March 2, 2011
47	48	District of Columbia	1.28	68%	November 1, 2011
48	47	Virginia	1.20	64%	April 1, 2011

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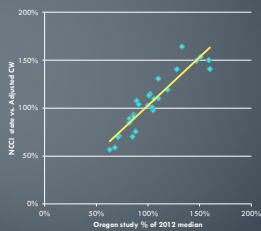
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Comparing the states with both measures

State WC rates in relation to reference, 2012 Oregon and NCCI data




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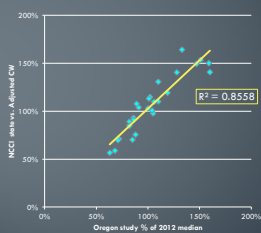
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Linear regression: R-squared is above .85

State WC rates in relation to reference, 2012 Oregon and NCCI data




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Thus, there are different ways of controlling for hazard mix, but they lead to very similar results.

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#### Largest classifications in the study

Code   Description

8810	Clerical Office Employees NOC
8742	Salespersons - Outside
8868	COLLEGE: Professional Employees & Clerical
8832	Physician and Clerical
9079	Restaurant NOC
8017	STORE: Retail, NOC
8833	Hospital: Professional Employees

These top 7 Oregon classes are all in the top 10 classes in NCCI country-wide payrolls. Together, they represent over 75% of the payroll weight in the study.

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**Q: My state's pure premium rates went down since the last ranking, but its new ranking is higher. How can that be?**

- The study incorporates additional employer cost factors, including insurer expenses and state administrative assessments. These may trend differently than pure premiums alone.
- A state with smaller declines than others may see its relative rank go up.

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### Q: What about factors like discounts, experience mods, dividends, etc?

- These factors apply to individual employers, not the state as a whole, so we can't use them.
- The available data aren't consistent or timely for all states.
- Based on NCCI data, however, it is likely that there is more discounting in the ID market than typical. This would mean that net employer costs would be somewhat lower than our study estimates.

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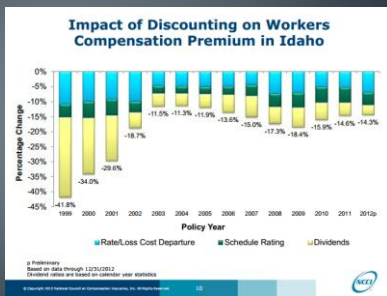
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### NCCI preliminary data show larger discounting for Idaho (countrywide about 4.5%)




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### Q: Why don't you include self-insurers' costs?

- States regulate self-insurers differently, so their costs aren't reported consistently.
- We focus on employers who are purchasing insurance, so we can treat them comparably.

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### Some observations

- The decline in rates in most states that began after 2004 has slowed, but generally continued through 2014.
- The gap between the low-cost and high-cost states has been shrinking since 2004. Although this trend reversed somewhat in 2014, this factor diminishes the significance of rank values.
- States can track rates over time with the “% of study median” figure, which is less volatile than ranks.

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### The ranking isn't a quick fix



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### Oregon WC Research Publications on the web

WC Rate ranking reports

<http://bit.ly/9mG3hs>

All WC research topics

<http://bit.ly/ceos42>

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*Thank you*

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